

**FINANCIAL MANAGEMENT SERVICE'S
DEPOSIT FUND ACCOUNTS USED FOR THE
IMPLEMENTATION OF THE COMPETITIVE
EQUALITY BANKING ACT**

OIG-00-088

May 30, 2000



Office of Inspector General

United States Department of the Treasury



OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

May 30, 2000

MEMORANDUM FOR RICHARD L. GREGG, COMMISSIONER
FINANCIAL MANAGEMENT SERVICE

FROM: Dennis S. Schindel *Dennis Schindel*
Assistant Inspector General for Audit

SUBJECT: Final Report on Financial Management
Service's Deposit Fund Accounts Used for the
Implementation of the Competitive Equality
Banking Act

This memorandum transmits the final audit report titled *Financial Management Service's Deposit Fund Accounts Used for the Implementation of the Competitive Equality Banking Act*. The Competitive Equality Banking Act (CEBA) is also known as the Limited Payability statute. The objectives of our review were to: determine the source and utilization of the deposit fund accounts that the Financial Management Service (FMS) established and maintained for the purpose of implementing CEBA, assess any related activity regarding the Individual Indian Monies trust fund, and assess the current limited payability cancellation process.

Overall, we identified approximately \$42 million in funds to be put to better use. We concluded that FMS should close out three limited payability cancellation accounts and transfer the corresponding balances, which total approximately \$42 million, to the miscellaneous receipts of the Treasury. We found that the Individual Indian Monies trust fund, for which the Department of the Interior (not Treasury) has primary responsibility, has no direct relationship to the limited payability deposit fund accounts. In addition, FMS current limited payability process adheres to CEBA; however, FMS should ensure that problems are identified and corrected in a timely manner.

The audit findings are summarized in the Executive Digest, and explained in further detail in the Audit Results section of the report. Also, the report includes three recommendations that are contained in the applicable sub-sections of the Audit Results section.

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In its response dated May 8, 2000, and included as Appendix 2, FMS management concurred with the findings and recommendations. FMS has taken actions such as: ceasing reconciliation efforts; flagging accounts so that adjustments cannot be made; implementing an enhancement to the Treasury Receivable, Accounting and Collection System; and initiating monthly monitoring of limited payability credits. In addition, FMS plans to move \$41,714,404.55 to the General Fund. The Office of Inspector General believes that the actions taken or proposed by FMS management address the intent of the recommendations.

We appreciate the courtesies and cooperation provided to our auditors during the audit. If you wish to discuss this report, you may contact me at (202) 927-5400, or a member of your staff may contact Maria V. Carmona, Acting Director, Program Audits, at (202) 283-1591.

Attachment

EXECUTIVE DIGEST

Overview

The Competitive Equality Banking Act (CEBA), Public Law 100-86, otherwise known as limited payability, required the cancellation of the Department of the Treasury (Treasury) checks that were outstanding as of October 1, 1989, and the cancellation of subsequently issued checks that were not negotiated within 12 months of issuance. In addition, CEBA delineated the purposes for which the proceeds of non-negotiated checks could be used.

The Office of Inspector General (OIG) received a June 11, 1999, memorandum from the then Treasury General Counsel requesting a review of two deposit fund accounts that the Financial Management Service (FMS) established and maintained for the purpose of implementing CEBA and of the disposal of historical records maintained by FMS. The OIG agreed to conduct a review of the deposit fund accounts and any related activity concerning the Individual Indian Monies (IIM) trust fund.

Objectives, Scope, and Methodology

The objectives of the audit were to: (1) determine the source and utilization of the deposit fund accounts that FMS established and maintained for the purpose of implementing CEBA, (2) assess any related activity regarding the IIM trust fund, and (3) assess the current limited payability cancellation process.

We reviewed the two limited payability deposit fund accounts from October 1, 1989 through September 30, 1999. We developed a chronology of events that transpired during that time. We interviewed former and current employees involved in the limited payability process at FMS. In addition, we selected a sample of 60 limited payability transactions for Fiscal Year (FY) 1999 to test and verify the current limited payability cancellation process.

EXECUTIVE DIGEST

Audit Results

The audit identified approximately \$42 million in funds to be put to better use. FMS has two deposit fund accounts and a former Financial Accounting and Reporting System (FARS) pre-effective limited payability account that should be closed out, and the remaining balances, which total approximately \$42 million, should be transferred to the miscellaneous receipts of the Treasury. The IIM trust fund, for which the Department of the Interior (not Treasury) has primary responsibility, has no direct relationship to the limited payability deposit fund accounts. The current limited payability cancellation process adheres to CEBA. However, FMS should ensure that problems are identified and corrected in a timely manner.

Recommendations

We recommended that FMS: discontinue efforts to reconcile the deposit fund accounts, make no adjustments to the accounts until final disposition is decided, close out the two deposit fund accounts and the former FARS pre-effective limited payability account and transfer the remaining balances to the miscellaneous receipts of the Treasury, and modify its existing Accounts Branch procedures to include a review of limited payability transactions processed through the Treasury Receivable, Accounting and Collection System (TRACS).

Management Response and OIG Comment

FMS management concurred with the findings and recommendations. FMS has taken actions such as ceasing reconciliation efforts, flagging accounts so that adjustments cannot be made, implementing an enhancement to TRACS, and initiating monthly monitoring of limited payability credits. In addition, FMS plans to move \$41,714,404.55 to the General Fund.

The OIG believes that the actions taken or proposed by FMS management address the intent of the recommendations.

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BACKGROUND

FMS is the United States (U.S.) Government's central financial manager. FMS promotes sound financial management practices for all Federal Program Agencies (FPA). FPAs report to FMS all of their deposits, disbursements, and fund balances. Additionally, FMS is charged with providing systems and related support for recording and reporting collection and payment transactions, and for identifying and reporting differences between FMS transaction records and agency transaction records. Also, FMS makes recommendations on the country's ability to borrow money to meet its debts.

The Accounts Branch within FMS accomplishes its limited payability responsibilities through two mainframe-based centralized accounting database systems. The first, TRACS, maintains the accounting for the check claims process. TRACS processes check claims, authorizes payments, issues bills, performs collection functions, and processes transfers to and from FPAs. The second, STAR,¹ which is the central accounting system for the U.S. Government, maintains all data related to Federal collections and disbursements. TRACS detail data and the cumulative detail balances should reconcile with STAR's summary totals and with data reported to TRACS by FMS' Check Payment and Reconciliation System (CP&R), which identifies and cancels checks that meet the limited payability criteria, then passes the credit to TRACS.

CEBA, Public Law 100-86, otherwise known as limited payability, includes provisions that required the cancellation of Treasury checks that were outstanding as of October 1, 1989, and the cancellation of subsequently issued checks that were not negotiated within 12 months of issuance. In addition, CEBA delineated the purposes for which the proceeds of non-negotiated checks issued before its enactment, and on the date of or after its enactment, could be used.

During our audit, Treasury and the Department of the Interior (Interior) were defendants in a Federal class action lawsuit relating to the IIM trust fund. During the course of the litigation, questions were raised regarding the source and utilization of funds in the FMS deposit fund accounts relating to the IIM trust fund.

The OIG received a June 11, 1999, memorandum from the then Treasury General Counsel requesting a review of the two deposit fund accounts and of the disposal of historical records. The first matter involved two deposit fund accounts FMS established and maintained for the purpose of implementing CEBA. The second matter involved the disposal of historical records maintained by FMS at its Hyattsville, Maryland,

¹ This term is not an acronym.

BACKGROUND

facility. The OIG agreed to conduct a review of the deposit fund accounts and any related activity concerning the IIM trust fund.

In response to the second part of the request regarding the disposal of records, the Inspector General (IG) agreed to defer any investigative action pending receipt of the Special Master's report. On July 1, 1999, the IG and the Special Master assigned by the presiding judge to investigate the disposal of records met. At that time, the Special Master requested that the OIG defer investigative activity until receipt of a report.

The IIM trust fund is primarily derived from claims, judgement awards, and proceeds from surface and subsurface leasing, such as agriculture, business, timber, minerals, or oil and gas. The IIM trust fund realizes receipts primarily from royalties on natural resource depletion, land use agreements, enterprises having a direct relationship to trust fund resources, per capita payments, and investment income. Treasury functions as the disbursing agent for Interior's Office of Trust Fund Management (OTFM). When Treasury checks are written by OTFM, the amounts are deducted from the IIM trust fund, regardless of when (or whether) the checks are eventually negotiated by the payees.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the audit were to (1) determine the source and utilization of the deposit fund accounts FMS established and maintained for the purpose of implementing CEBA, (2) assess any related activity regarding the IIM trust fund, and (3) assess the current limited payability cancellation process. Following an entrance conference in August 1999, we conducted our on-site audit fieldwork at FMS's Accounts Branch located in Hyattsville, Maryland, from September through November 1999.

To accomplish the audit objectives, we reviewed the two limited payability deposit fund accounts from October 1, 1989, the effective date of CEBA, through September 30, 1999. We developed a chronology of events that transpired during that time. We interviewed former and current employees involved in the limited payability process at FMS. We reviewed the Accounts Branch's reconciliation efforts for the deposit fund balances, but could not perform any extensive detailed reconstruction of the accounts due to the lack of supporting documentation and an audit trail. Therefore, we are unable to attest to the details (make up) of the account balances. In addition, we randomly selected a sample of 60 limited payability transactions for FY 1999 to test and verify the current limited payability cancellation process.

We conducted the audit in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States, and included such tests as were deemed necessary.

AUDIT RESULTS

Finding 1. FMS Should Close Out the Two Limited Payability Deposit Fund Accounts and the Related Former FARS Account, and Transfer the Remaining Balances to the Miscellaneous Receipts of the Treasury

Deposit Fund Accounts

FMS had two limited payability deposit fund accounts with balances totaling \$11,358,242.63 that did not comply with the provisions of CEBA. FMS created the two deposit fund accounts and anticipated that agencies would submit future claims for pre- and post-effective date checks. As a result, because FMS created the two deposit fund accounts and continued to carry them in the financial system, the funds have not been put to better use.

CEBA required that Treasury checks that were outstanding as of October 1, 1989, be cancelled within 18 months. The proceeds from the cancelled checks should have been applied to eliminate the balances in accounts that represented uncollectible accounts receivable and other costs associated with the payment of checks and check claims by Treasury on behalf of all payment certifying agencies. Any remaining proceeds should have been deposited in the miscellaneous receipts of the Treasury. Also, CEBA requires that Treasury checks issued on or after October 1, 1989, which remain outstanding for 12 months or more be cancelled and that the funds be returned to the applicable agencies.

FMS established the two deposit fund accounts in April 1988 in anticipation of CEBA. One account, titled *pre-effective date limited payability cancellations credit*, was established to cancel checks issued prior to October 1, 1989. The other account, titled *post-effective date limited payability cancellations credit*, was established to cancel checks issued on or after October 1, 1989.

As of September 30, 1999, the balance in STAR for the pre-effective deposit fund account (20X6023) was \$328,625.16. The balance in the post-effective deposit fund account (20X6024) was \$11,029,617.47. FMS informed us that the deposit fund accounts had remained active in anticipation of future claims. FMS made the two deposit fund accounts dormant in October 1997, so that no further activity would be reported to the accounts, and so that the Accounts Branch could reconcile the differences in the balances between TRACS and STAR.

AUDIT RESULTS

As previously discussed, the intent of CEBA was not to establish ownership of the funds or to return the funds to the agencies for checks issued prior to October 1, 1989. CEBA required intent was for FMS to conduct a mass cancellation and return the funds to the miscellaneous receipts of the Treasury. After the mass cancellation took place, CEBA's intent was that FMS would start with a new limited payability process that would automatically and systematically return the funds outstanding to the applicable agencies.

CEBA made it impossible for any individual or agency, including individual Indians, to directly claim any Treasury funds that were subject to mass cancellation. Any claims on the Government would have to be reestablished with the certifying agency. Nothing in CEBA was to be construed as affecting the underlying obligation of the U.S. or any agency thereof. According to FMS Bulletin No. 90-03, *Limited Payability*, Section 4b, Check Claimability, dated October 1, 1989, "any claim on account of a Treasury check issued prior to October 1, 1989, will be barred unless it is presented by the payee to the certifying agency before October 1, 1990."

In our opinion, FMS should not have established the pre- and post-effective limited payability deposit fund accounts in anticipation of future claims. The deposit fund accounts should not have existed after FMS conducted the mass cancellation (discussed further on Page 6). However, to comply with the intent of CEBA, we believe that FMS should have created the post-effective limited payability cancellation account (2135) that currently exists in TRACS.

At the time of our audit, the Accounts Branch was unable to reconcile the different balances between TRACS and STAR. We do not believe that the Accounts Branch will be able to reconcile the balances due to the lack of an adequate audit trail. Much of the historical documentation regarding the deposit fund balances no longer exists. Therefore, we believe that FMS should discontinue any attempts to reconcile the balances.

Former FARS Limited Payability Cancellation Account

We found a balance of \$30,356,161.92 remaining in a pre-effective limited payability cancellation account (2125) maintained in FARS. The balance had not been transferred to the TRACS pre-effective limited payability account. In 1991, FMS converted its FARS to TRACS. At the time of conversion, FARS had a balance of \$41,836,670.25. Only \$11,480,508.33 was transferred into TRACS.

AUDIT RESULTS

The entire FARS balance was not carried forward to TRACS because only the FARS data that matched the edit capabilities of TRACS (*valid* transactions) were entered into TRACS. The remaining *invalid* transactions that could not be migrated into TRACS were printed for manual reconciliation.

During our audit, the Accounts Branch was unable to perform a manual reconciliation. Many of the historical records no longer exist and FMS is unable to identify agency location codes (ALC) for the various agencies. Therefore, FMS should close out the FARS balance and transfer the FARS pre-effective limited payability cancellation funds to the miscellaneous receipts of the Treasury. Also, during our audit, there was a suggestion from the Accounts Branch about making adjustments between the pre- and post-effective deposit fund accounts. There was no basis or documentary accounting evidence to make any adjustments to the deposit fund accounts.

In our opinion, FMS should discontinue its effort to reconcile the balances and make no adjustments to the deposit fund accounts.

Mass Cancellation

FMS processed a mass cancellation in two segments. The first segment, totaling approximately \$4.8 billion, occurred on November 30, 1990. The source of the mass cancellation included records of unnegotiated checks dating from 1955 through November 1986. FMS extracted the check record information from its old CP&R system. Another source for the mass cancellation was unnegotiated check record information from November 1986 through September 30, 1989, that FMS extracted from its new CP&R system implemented in 1986.

The second segment of the mass cancellation, totaling approximately \$11.3 million, was for checks dated prior to October 1, 1989, that were cancelled during the period December 1990 through June 1991. The sources for the second segment included agencies such as the Department of Defense, the Social Security Administration, the Railroad Retirement Board, the Internal Revenue Service, and the Veterans Administration. The second segment did not identify Interior as a source of funds. The detailed information to support Interior's check records is maintained by Interior. FMS information is only recorded at the ALC level.

AUDIT RESULTS

The proceeds of the mass cancellation went to the Treasury General Fund to reduce the Federal debt (miscellaneous accounts receivables).

It was appropriate for FMS to process the mass cancellation. But, checks totaling \$227,188.51 cancelled during May and June 1991 for the mass cancellation were processed late and after the cut-off time frame established by CEBA. We were told that FMS cancelled the checks during these two months (May and June 1991) because agencies had not submitted the check issue information in a timely manner.

According to FMS Bulletin No. 90-03, *Limited Payability*, Section 4c, Pre-effective Date Limited Payability Cancellation, "Not later than April 1, 1991, Treasury will identify and cancel all checks issued prior to October 1, 1989, that are still outstanding. The moneys will be applied by Treasury as required by Public Law 100-86, Sec. 1003. No moneys will be available to agencies from this cancellation."

In our opinion, the pre- and post-effective limited payability cancellation accounts should never have existed. Instead, when FMS created the accounts, the funds should have been mass-cancelled in accordance with CEBA. All funds should be returned to the miscellaneous receipts of the Treasury.

Recommendations

1. FMS should discontinue efforts to reconcile the deposit fund accounts. FMS should not make any adjustments to the accounts until final disposition is decided.
2. FMS should close out the two deposit fund accounts and the former FARS pre-effective limited payability account and transfer the remaining \$41,714,404.55 to the miscellaneous receipts of the Treasury.

Management Response and OIG Comment

1. Management concurred with the recommendation. Reconciliation efforts have been terminated and accounts flagged so that adjustments cannot be made.

AUDIT RESULTS

2. Management concurred with the recommendation. Account balances have been established, and the funds, upon authorization by the Assistant Commissioner for Financial Operations, will be moved to the General Fund. This is planned to occur by June 30, 2000.

The OIG believes that the completed and proposed actions address the intent of the recommendations.

AUDIT RESULTS

Finding 2. The Individual Indian Monies Trust Fund, for Which Interior (Not Treasury) Has Primary Responsibility, Has No Direct Relationship to the Limited Payability Deposit Fund Accounts

Interior (not Treasury) is the primary custodian of IIM trust fund. Interior has custodial responsibility for accounting and reporting IIM trust fund activities. Interior has independent disbursing authority for payments relating to the IIM trust fund. By contrast, Treasury has a minimal role with respect to the IIM trust fund. Under the IIM trust fund statute, the only responsibility of Treasury is to invest the IIM fund, at the direction of Interior, in public debt securities with maturities determined by Interior.

As specifically stated in 25 USC 162a (d), Interior is responsible for, among other things: (1) providing adequate systems for accounting for and reporting trust fund balances; (2) providing adequate controls over receipts and disbursements; (3) providing periodic, timely reconciliations to assure the accuracy of accounts; (4) determining accurate cash balances; (5) preparing and supplying account holders with balances of their accounts, which shall be available on a daily basis; and (6) establishing consistent written policies and procedures for trust fund management and accounting.

There is no direct relationship between the IIM trust fund and the deposit fund accounts. The trust fund is an account used for investment purposes. The deposit fund accounts are used to return credits for non-negotiated checks authorized by the agencies. There could be an indirect relationship between the IIM and the deposit fund accounts if the deposit fund accounts were to contain monies that were previously disbursed from the IIM, but were never negotiated by the recipient. However, Interior would be the responsible agency that would have that information.

FMS informed us that Interior requested and was provided with a copy of the mass cancellation file relating to Interior. According to the data FMS provided, Interior had 57,254 items totaling approximately \$1.8 million in the mass cancellation. FMS does not have the level of detail that would enable it to determine if the 57,254 items represented IIM trust fund transactions.

AUDIT RESULTS

The mass cancellation was mandated by CEBA. The funds from the checks canceled at the time of the mass cancellation should have been applied to the miscellaneous receipts of the Treasury. Therefore, no entity or individual, including individual Indians, was entitled to receive funds from the mass-canceled checks. Subsequent to the mass cancellation, entities and individuals could go back to the authorizing agency for recertification of the liability. It is not Treasury's responsibility to recertify payments/checks without authorization from the certifying agency. FMS maintains payment information at the ALC level. Federal agencies, including Interior, must keep any records necessary to recertify payments on obligations represented by canceled checks.

AUDIT RESULTS

Finding 3. FMS Should Improve Its Current Limited Payability Cancellation Process

The current limited payability cancellation process adheres to CEBA. However, FMS should ensure that the Accounts Branch systematically identifies and corrects problems in a timely manner. If FMS continues to have transactions accumulate in TRACS, the same problems that existed in the old FARS system will occur. That is, large sums of unidentified monies will be held in an account when these funds should be returned to the agencies so that the funds can be put to better use.

Of the 60 transactions that we reviewed, we found that FMS should have timely identified the problems we discovered for 4 transactions. Because of the limited scope of the current audit, we selected a small sample to determine if there were any problems with the current limited payability process. We did not extrapolate to the universe of FY 1999 transactions.

For 2 of the 4 limited payability transactions, the agencies had not been credited with the funds as of November 1999. The check issue dates were August 21, 1997, and November 12, 1997. The limited payability cancellation dates were October 27, 1998, and January 20, 1999, respectively. Although the cancellation appropriately occurred during the 14th month, the credits were not transferred to the agencies in a timely manner.

According to FMS Bulletin No. 90-03, *Limited Payability*, Section 5e, Limited Payability Cancellation, during the 14th month after issuance, Treasury will identify and cancel all checks that have aged 12 months from the issue date during the previous month and have remained outstanding. Proceeds of the checks will be forwarded to agencies using 8-digit ALCs in the issue record through the Government On-line Accounting Link System/On-line Payment and Collection system (GOALS/OPAC). Non-Treasury Disbursing Officers will receive credit on the Standard Form (SF) 1081, *Voucher and Schedule of Withdrawals and Credit*, from the Accounts Branch.

We informed the Accounts Branch that the agencies had not received credit for the funds because they were still in TRACS. The Accounts Branch researched and corrected the problem, and transferred the

AUDIT RESULTS

funds to the appropriate agencies via the SF 1081. The reason the credits did not automatically transfer to the agencies was because there were no transfer options and consolidation codes recorded on the ALC query screen. When this happens, the item defaults to GOALS to determine what transfer option (OPAC or SF 1081) should be used. The credit for the two transactions would normally have been transferred via SF 1081. But, because there was no transfer option and consolidation code recorded on the ALC query screen, GOALS eliminated the transactions as invalid ALCs.

According to an accountant in the Accounts Branch, at the time, the solution was that the programmer in the Applications Software Division would fix the transfer option and consolidation code. We were provided with supporting documentation demonstrating the actual transfer and credit to the agencies.

For the other two transactions, the check and limited payability cancellation dates were missing in TRACS. When the Accounts Branch researched the two transactions with missing dates, the Accounts Branch informed us that the debit voucher was prepared by the Reconciliation Branch for issue tape process with erroneous dates of February 1997 instead of February 1998. According to the Accounts Branch, the problem caused limited payability cancellations for the two transactions.

We determined that the Accounts Branch had not conducted a periodic review of the limited payability transactions in TRACS to discover discrepancies that may exist in TRACS. We reviewed the existing procedures and determined that the Accounts Branch did not include a process to conduct a periodic review of limited payability transactions in TRACS. A periodic review of limited payability transactions processed in TRACS will ensure that discrepancies are identified and corrected in a timely manner.

Recommendation

1. FMS should modify its existing Accounts Branch procedures to include a review of limited payability transactions processed through TRACS.

Management Response and OIG Comment

Management concurred with the recommendation. To correct the problem related to non-Treasury Disbursing Offices, a TRACS

AUDIT RESULTS

enhancement request was implemented on March 1, 2000. This enhancement converts 4-digit ALCs to the appropriate 8-digit ALC. Additionally, through the use of recently-obtained software, the Accounts Branch now monitors limited payability credits on a monthly basis to ensure that no credits are suspended. One of the senior accountants has been assigned to resolve any aged limited payability credits and to monitor the account on a monthly basis.

The OIG believes that the completed and proposed actions address the intent of the recommendation.

ABBREVIATIONS

ALC	Agency Location Code
CEBA	Competitive Equality Banking Act
CP&R	Check Payment and Reconciliation System
FARS	Financial Accounting and Reporting System
FMS	Financial Management Service
FPA	Federal Program Agency
FY	Fiscal Year
GOALS	Government On-line Accounting Link System
IG	Inspector General
IIM	Individual Indian Monies
Interior	Department of the Interior
OIG	Office of Inspector General
OPAC	On-line Payment and Collection System
OTFM	Office of Trust Fund Management
SF	Standard Form
STAR	Central Accounting System for the U.S. Government (not an acronym)
TRACS	Treasury Receivable, Accounting and Collection System
Treasury	The Department of the Treasury
U.S.	United States
USC	United States Code

MANAGEMENT RESPONSE



DEPARTMENT OF THE TREASURY
FINANCIAL MANAGEMENT SERVICE
WASHINGTON, D.C. 20227

May 8, 2000

MEMORANDUM FOR DENNIS S. SCHINDEL
ASSISTANT INSPECTOR GENERAL FOR AUDIT

FROM: RICHARD L. GREGG *for Kenneth R. Papaj*
SUBJECT: Draft Report on Financial Management Service's Deposit Fund
Accounts Used for the Implementation of the Competitive
Equality Banking Act--FMS Comments

Thank you for the opportunity to review your draft audit report on the *Financial Management Service's Deposit Fund Accounts Used for the Implementation of the Competitive Equality Banking Act* (CEBA) dated March 30, 2000. We concur with the findings and recommendations, and we have a few points of clarification. Although the Financial Management Service (FMS) corrective action plan is not yet due, a synopsis of our planned corrective actions and their status follows immediately below. After that is a discussion of the technical issues.

Finding 1 - FMS Should Close Out the Two Limited Payability Deposit Fund Accounts and the Related Former FARS Account, and Transfer the Remaining Balances to the Miscellaneous Receipts of the Treasury.

Recommendation 1 - FMS should discontinue efforts to reconcile the deposit fund accounts. FMS should not make any adjustments to the accounts until final disposition is decided.

Status of Corrective Action: Reconciliation efforts have been terminated and accounts flagged so adjustments cannot be made.

Recommendation 2 - FMS should close out the two deposit fund accounts and the former FARS pre-effective limited payability account and transfer the remaining \$41,714,404.55 to the miscellaneous receipts of the Treasury.

Status of Corrective Action: Account balances have already been established and the funds, upon authorization by the Assistant Commissioner for Financial Operations, will be moved to the general fund. This is planned to occur by June 30, 2000.

MANAGEMENT RESPONSE

Page 2 – DENNIS S. SCHINDEL

Finding 2 - The Individual Indian Monies Trust Fund, for Which Interior (Not Treasury) Has Primary Responsibility, Has No Direct Relationship to the Limited Payability Deposit Fund Accounts

Status of Corrective Action: No recommendation; no corrective action is necessary.

Finding 3 - FMS Should Improve Its Current Limited Payability Cancellation Process

Recommendation 3: FMS should modify its existing Accounts Branch procedures to include a review of limited payability transactions processed through Treasury Receivable, Accounting, and Collection System (TRACS).

Status of Corrective Action: To correct the problem related to non-Treasury Disbursing Offices (NTDOs), a TRACS enhancement request was implemented on March 1, 2000. This enhancement converts four-digit agency location codes (ALCs) to the appropriate eight-digit ALC. Additionally, through the use of recently obtained software, Accounts Branch now monitors limited payability credits on a monthly basis to ensure that no credits are suspended. One of the senior accountants has been assigned to resolve any aged limited payability credits and to monitor the account on a monthly basis.

Clarifications

On page 1, the second paragraph correctly describes the roles of accounting systems TRACS and STAR [not an acronym], but should mention the role of the Check Payment and Reconciliation System (CP&R) which identifies and cancels checks that meet the limited payability criteria, then passes the credit to TRACS.

On page 5, second paragraph, it would be more accurate to add at the end, "CEBA also stated that 'Nothing in this subsection...should impact the underlying obligation of the agency.'"

On page 6, reference is made to two mass cancellations. There was only a single mass cancellation. During the months from December 1990 through June 1991, FMS received check issue data for pre-October 1989 checks that were outstanding, which were cancelled as part of the monthly check cancellation process. The funds associated with these pre-October 1989 checks were not returned to the agency.

On page 8, fourth paragraph, reference is made to the "... first mass cancellation file." The word "first" should be deleted, since there was no second file.

MANAGEMENT RESPONSE

Page 3 – DENNIS S. SCHINDEL

As you can see, FMS has been proactive in identifying the required corrective actions and has already made significant progress toward implementing the recommendations made in your report. Thank you for keeping us informed during the audit so that we could take prompt action.

cc: Don Hammond

MAJOR CONTRIBUTORS TO THIS REPORT

PROGRAM AUDITS DIRECTORATE

Maria V. Carmona, Acting Director
C. Samuel McGeorge, Audit Manager
Delores V. Dabney, Auditor-in-Charge
Ethel Taylor-Young, Senior Auditor

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